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Part-2

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(8) Is "Koizumi politics" helping widen social disparity? Osaka University Prof. Otake says, "No," while Kyoto University Prof. Tachibanaki says, "Yes"

TOKYO SHIMBUN (Page 3) (Full)
March 30, 2006

A debate is intensifying over the evaluation of the structural reforms Prime Minister Junichiro Koizumi has implemented to date. Has social disparity been widened over the past five years? The Tokyo Shimbun interviewed two academics about what Koizumi politics has created over the past five years.

Fumio Otake, professor at the Institute of Social & Economic Research, Osaka University: Widening social disparity attributable primarily to aging population

Interviewer: Katsumi Sekiguchi of the Political Desk

-- Do you think the Japanese public is happier than they were five years ago, when the Koizumi administration made a start?

"It is a rule of thumb that when the jobless rate goes up, the national level of happiness goes down. Although I can't tell how the public has felt over the past five years, the jobless rate has now dropped to below the level in 2003, when it was at its worst. So I can say the public is happier than they were at that time."

-- Some people think social disparity has expanded.

"True, income disparity has widened, but the cause is attributable to the growing percentage of aged individuals among whom there is a wide income gap in the same generation. This has nothing to do with the Koizumi administration. Some are making too much fuss, arguing (the disparity is expanding)."

-- Well, why do you think many people feel the gap widening?

"One reason is for the rise in stock prices and land prices in midtown districts. When their prices go up in anticipation of economic recovery, those who possess them see the value of their assets rise. But salaries have not been raised before the economy recovered, so there is time lag. This sort of gap (in assets between the haves and the have-nots) always occur during a recovery period of the economy."

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-- But there are entrepreneurs with a huge amount of assets, for instance, those who have been doing well in IT businesses. They are called "winners."

"Such entrepreneurs had no opportunities to find a job as a regular employee (because of the slump after the burst of the economic bubble). So, they created their way of living by starting their own companies. They are not the real winners. The winners are permanent employees who form a majority of workers. There is a gap in young people between regular employees and 'freeters' (who do not have a permanent full-time job but live by having one or more part-time jobs or become job-hoppers). But this gap is viewed as being exception."

-- Why do you call regular employees the winners?

"During the hard times for college-graduate job-seekers since 1997 until just recently, many young people turned into freeters. If companies had continued the new hires of college-graduates, the disparity among young people would not have emerged. However, regular employees were advocating the logic of the strong to protect their position, arguing, 'Instead of cutting wages, the company should hire part-timers.'"

-- Do you think the disparity between permanent employees and freeters will be dissolved over time?

"Looking at the new college-graduates (who will get jobs) in the years ahead, I think the ratio of regular employees to total workers will rise, but those who are already freeters would find it difficult to get permanent positions, given their ages. Public support, including vocational training, is necessary for them."

Fumio Otake: Completed the first half of the doctorate course at the Graduate School of Osaka University; after serving as lecturer at Osaka Prefecture University, has served in the current post since 2001; majored in labor economics; comes from Kyoto Prefecture; is 45 years old.

Toshiaki Tachibanaki, professor at Kyoto University: Competition-

oriented policy going too far

Interviewer: Shoichi Takayama of the Political Desk

-- Over the past five years under the Koizumi administration, has the public been made happy?

"I think those who have been pushed down into a lower bracket as a result of the expansion of income disparity may feel unhappy, while those who have climbed into the upper bracket may feel happy."

-- Why do you think the disparity is expanding?

"The number of poor people has increased. The number of households living on welfare has risen from 600,000 in 1995 to 1,000,000 in 2005. The most serious cases are found in aged individuals living alone, poor young people and fatherless families."

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-- There is an argument that the gap has not been so much widened when it comes to the whole society, though the number of elderly people among whom there is a wide gap in income disparity has in fact increased.

"An increase in the number of such elderly people means an explosion in needy aged individuals. When the majority of people in the society were in the middle class, everybody had incentive to work. But once people were pushed into the lower class, they have lost their will to work, and there is also a rise in crimes. Some corporate managers are also arguing that the widening income disparity is a bad thing."

-- Is the Koizumi administration to be blamed for the widening of income disparity?

"Inequality was already seen before the Koizumi administration started, but it is true that market fundamentalism and the competition-emphasized policy (advanced by the Koizumi administration) have helped the gap expand. These policy approaches were intended to boost the economy, but they have gone too far, failing to pay attention to the poor; as a result, the number of poor people has risen. Changing the strategy is necessary."

-- The Prime Minister has also emphasized the necessity of safety net.

"What he has been doing in actuality is the opposite. He has cut the social welfare budget. That has led to hiking, for example, the medical treatment fees the public pays at hospitals and pension premiums."

-- Yet, the so-called Koizumi reforms have helped corporate performances to recover.

"I give high marks to the administration in terms of slashing useless public outlays and thereby contributing to expanding the economy, but the benefits of all these have not been passed along to the workers in view of wage hikes and turning non-regular employees into regular employees, for example."

-- There is concern that the income disparity will become fixed.

"Wealth disparity between parents determines whether their children receive good education. This gap will be taken over by the next generation. Japan must take action, including improving the scholarship system, and expand the current lowest level of educational expenses among the industrialized nations."

Toshiaki Tachibanaki: completed the graduate course at the Johns Hopkins University; after serving as assistant professor at Kyoto University, has served as professor there in 1986; majored in labor economics; comes from Hyogo University; is 62 years old.

(9) Leverage for Japan's space exploration as LDP eyes new space legislation for defense purposes

ASAHI (Page 15) (Full)
March 29, 2006

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Cabinet post likely for strategic space exploitation

Japan will likely soon make a big leap for space exploration. The ruling Liberal Democratic Party is moving ahead on the drafting of new legislation that would end Japan's self-imposed moratorium on the use of outer space for defense purposes. Until now, Japan has limited its space utilization to activities for nonmilitary purposes only. The LDP is also studying the feasibility of setting up a 'control tower' for Japan's space activities. In the upcoming fiscal year or later, the government will entrust the H-2A rocket, Japan's mainstay launching vehicle, to private sector's hands in order for Japan to make inroads into international markets for the space business. However, Japan's space-related industry has been dwindling and is becoming precarious.

"Japan has shackled itself to a Diet resolution. As a result, Japan has strayed off its course in returning its rockets to flight. We now have to meet global standards. To do so, we'll must enact a new law. That's the best way."

On March 28, the ruling Liberal Democratic Party's special committee on space activities held a meeting of its subcommittee on Japan's exploration and peaceful uses of outer space. In the meeting, Katsuyuki Kawai, presiding as deputy chairman over the subcommittee, proposed establishing a space activities law. The subcommittee unanimously approved the proposal. In principle, Japan has limited its space activities to peaceful purposes only. The new legislative measure, meanwhile, is aimed at its changeover to nonattack defense purposes.

The peace doctrine for space activities was adopted in a 1969 Diet resolution. The government has interpreted it as limiting Japan's space utilization to activities for nonmilitary purposes only. The LDP could also opt to resolve in the Diet to lift the ban on space utilization for defense purposes. However, Kawai notes that Diet resolutions basically require unanimous approval from all lawmakers in their plenary sittings. "The hurdle is lower in the case of lawmaker-initiated legislation," he says. The targeted law, once enacted, would allow the Defense Agency to develop and employ early warning satellites that detect ballistic missiles launched, as well as high-performance spy satellites.

"Japan's space programs used to be mainly for research and development," says former Education, Culture, Sports, Science and Technology Minister Takeo Kawamura, who chairs the subcommittee. "But," he adds, "it's critical to utilize space for strategic purposes, including the areas of national security, diplomacy, and public security." In addition, the new legislation is also aimed to broaden the spectrum of space activities and develop new industries.

Some lawmakers in the leading opposition Democratic Party of Japan (DPJ or Minshuto) are also voicing their support for a review of the peace doctrine. The LDP eyes enacting the new legislation into law at next year's ordinary session of the Diet. However, the Diet resolution has served to deter Japan from being involved in the space arms race. The New Komeito, a coalition partner of the LDP, has treated the 1969 Diet resolution in a positive way, so the LDP cannot necessarily expect the legislation to clear the Diet without a hitch.

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The LDP is also seeking to revamp the government's current

decision-making framework. In concrete terms, the LDP will advocate establishing a special portfolio or cabinet post for space activities and setting up a council for space strategies. At present, a number of space development programs are separately going on in various organizations affiliated with the Ministry of Education, Culture, Sports, Science and Technology (MEXT), the Ministry of Economy, Trade and Industry (METI), and the Ministry of Internal Affairs and Communications (MIC). The Space Activities Commission (SAC), a one-time government board overseeing Japan's space development, was also demoted to the status of an advisory panel to MEXT in the government's restructuring of its ministries and agencies in 2001. "The way things are going, we can't go ahead with multipurpose satellite projects in various areas, including agriculture, environmental protection, and disaster prevention," says Japan Aerospace Exploration Agency (JAXA) President Keiji Tachikawa, who was on the board of SAC members.

For example, Japan has now embarked on a quasi-zenith satellite (QZS) project. The QZS is a satellite to be orbited near the zenith of Japan for hyperacute positioning. This satellite can be expected to provide commercial services as well. The first QZS delivery is timetabled for fiscal 2008. However, the government has yet to define its internal role sharing and yet to decide on which organization is to oversee QZS operations and what services to provide. Details are still up in the air.

Some point to Japan's lack of strategy for manned space activities. The International Space Station (ISS) project will now be phased down since the US National Aeronautics and Space Administration (NASA) has backpedaled on the project. Japan is concerned about whether its astronauts can stay long on their ISS module. In point of fact, there is no choice but to depend on the United States.

In 2004, the Council for Science and Technology Policy (CSTP), a board of advisors to the government, released a report on Japan's basic strategy for space development and exploitation. The report, however, went no further than to suggest the need for the government to begin in 20-30 years to study the feasibility of setting about manned space activities on Japan's own.

H-2A commercialization: Concerns raised about Japan's international competitiveness

The government will soon transfer its H-2A delivery missions to the private sector. Mitsubishi Heavy Industries, Ltd. (MHI) will take over the job from JAXA in the upcoming fiscal year or later. Japan has successfully returned three H-2A rockets to flight in the past year. "Japan has successfully lifted off three H-2A rockets in a row following the failure to launch a sixth one, and Japan could recover its international credibility," says Yoshiharu Kurihara, general manager of the Space Systems Department at MHI Aerospace Headquarters.

However, the H-2A will be at a moment of truth in fiscal 2008 or later. Japan plans an annual space delivery of three satellites or so for the 2006 and 2007 fiscal years. They are intelligence-gathering satellites or ultrahigh-speed Internet communication

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satellites for government or JAXA use.

Judging from MHI's capacity, the H-2A can deliver 3-4 satellites a year. From now on, MHI will annually deliver a commercial satellite or two on the H-2A, in addition to public satellites. However, some wonder if Japan will be able to survive the tough business on international markets.

What is the H2-A's merit? "We don't have to ship satellites overseas," an MHI official says, "and there's no language barrier." However, MHI's clients are taking a frosty look at MHI. "The H-2A has often put off its flights for a couple of months," says a satellite service provider. This company also notes the "high cost" of delivering a payload on the H-2A. "We'll need to wait for a while to see actual flights," he says.

Meanwhile, US and European rivals have experienced more than 100 liftoffs and successfully returned about 90% of them to space so far. However, the H-2A has made only nine successful flights into space. The delivery costs of foreign rivals average 6-8 billion yen, while the H2-A costs approximately 9 billion yen. China, a potential rival on the international market, provides payload delivery services at still lower prices. MHI does not think the H-2A can vie with China, according to its official.

NASA forecasts an annual total of 15-20 commercial satellites in the world for space delivery over the next 5-10 years. Japan will have to scramble against powerful rivals for the few business chances.

Furthermore, the European Union's Ariane rocket-the strongest of all rivals-has financial backup from the European Space Agency (ESA) with an annual funding of 200 million euro or approximately 28 billion yen for launching pad maintenance and other costs. MHI depends on the government for research intended to improve the credibility of Japan's launching vehicles. In addition, MHI will also ask the government to undertake launching pad maintenance. "We'll have to reduce costs, but we should first think of launching our rockets without fail," says an MHI official.

Domestic products on the ebb, replaced with foreign products

Satellite and rocket parts are now hardly available at home. According to Society of Japanese Aerospace Companies (SJAC) and other statistics, space-related industries sustained a decrease of about 40% in their annual turnover during the five fiscal years up to 2004. They have also sustained a decrease of about 10% in their workforce and also reduced their capital spending to half.

JAXA has a products qualification system for its suppliers in order to procure high-quality parts for spacecraft use. In 2005, JAXA qualified 250 products. This quantity, however, is half the number qualified five years ago. Its supplies also decreased from 37 to 31.

These facts show that Japan's space industry is on the ebb. What lies behind that is a decrease in government funding. JAXA's budget from the state coffers for the current fiscal year is 20% down from its peak in 1999. Japan's space industry depends on the government for more than 70% of demand. In the case of private-

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sector demand as well, the greater part of it is public-sector demand via big businesses. The private sector's own demand accounts for only 2%, according to 2003 statistics.

NEC TOSHIBA Systems, Ltd. manufactures space-related equipment. Its managing director, Shogo Kitahara, is concerned about Japan's dependence on foreign makers for spacecraft parts. "But," Kitahara said, "we don't know about satellite development in the future." He added, "We must have prospects, or we can't ask our suppliers not to stop their production."

Depending on foreign makers for parts will likely bring about problems when their products are in trouble. JAXA Space Utilization Project Manager Homma complains: "Spacecraft parts have many trade secrets, so we can't get information we need for trouble shooting or repair work."

For example, there is a microchip for space-related equipment. The chip is called electronic program guide, or EPG for short. EPG writes a computer program for attitude control and is widely introduced for satellites. Only one US maker produces EPGs. In 2003, JAXA discovered a glitch in the chip. EPGs were used for an engineering test satellite (ETS) and other satellites scheduled to be launched on the H-2A. JAXA took six months for its root cause analysis and other trouble-shooting steps with an additional outlay of several hundred million yen.

Japan's launching vehicles have also undergone a sea change. In

the case of the H-2 rocket, which is the H-2A's prototype, more than 90% of its componentry were domestic products. In the case of the H-2A, however, the rate of domestic products is down to 30%.

"Launching vehicles need guidance systems and other technologies," says Mamoru Endo, project manager of JAXA's H-2A team. Endo goes on, "Once these technologies die out, it will be difficult to get them back." He notes that JAXA's contractors can no longer afford to develop technologies, wondering if they can hand down their technical know-how. "The way things are going," he added, "we can't build the H-2A in five years."

(10) Editorial: Administrative surcharges leniency system effective to prevent bid-rigging practices

YOMIURI (Page 2) (Full)
March 31, 2006

It has already been demonstrated that the leniency system of administrative surcharges, which was introduced in January when the Antimonopoly Law was revised, is effective to prevent bid-rigging practices.

The Fair Trade Commission (FTC) searched the offices of about 30 companies, including Mitsubishi Heavy Industries Lt. (MHI) and Ishikawajima-Harima Heavy Industries Co. (IHI), on suspicion that they had rigged bids on floodgate public works projects.

In addition, the FTC has started detecting alleged rigging of bids on ventilating installation works for tunnels for which the former Metropolitan Expressway Public Co. and the government had placed orders.

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The FTC detected the bid-rigging scam because offenders had voluntarily reported the cases to the fair trade watchdog in consideration of the surcharges leniency system.

The characteristic of the system is that the FTC will exempt or reduce the amount of administrative surcharges if the offender voluntarily reports the case to the FTC.

The FTC has introduced the system, which is effective to detect corporate crimes, including cartels, in the United States and Europe. The system is similar to plea-bargaining.

Business circles opposed the introduction of the system for it did not match the Japanese business culture, since the system appears to be recommending treachery as an act. Fortunately the system seems to have functioned well.

For companies it must be a great shock because they might be reported to the FTC if they rig bids.

Under such circumstance, the responsibilities of executives of the offending companies are significant. They should realize that increasing their awareness of obeying the rules, giving up rigging bids, is the only way to save their companies, rather than taking a high risk economically and socially by taking part in bid-rigging practices.

Under the revised Antimonopoly Law, the standard for calculating the administrative surcharges for the offenders was significantly raised. If major companies break the law, the fine, once six percent, has been increased to 10 percent. A fine of 15 percent are applied to repeat offenders.

If the hikes in the surcharges sticks, the leniency system is a carrot for firms to put an end to bid-rigging practices. It can be said that the leniency system has begun to eliminate the "bid-rigging culture."

In construction circles where rigging bids is common, reportedly five leading general construction companies have agreed to

eliminate bid-rigging practices. General construction firms declared many times in the past their determination to put an end to bid-rigging practices, but they have always broken their promises. But executives of the construction industry say they will keep their promise this time.

The perception that rigging bids is an unforgivable crime to waste tax money should be established in the construction industry.

(11) Growing Japanese economy (Part 2): Promotion of efficiency increasing domestic productivity again

NIHON KEIZAI (Page 1) (Full)
March 30, 2006

Aichi Steel Works, Ltd., a leading auto parts maker of the Toyota Group, plans to construct a plant for foundry pieces made out of special steel in Tokai City, Aichi Prefecture. Foundry pieces used to be used to assemble engine crankshafts, because of

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difficulty in obtaining the same quality of products as those made in Japan from overseas, the company will expand its production capability by more than 20% by constructing the new plant at a cost of approximately 10 billion yen. When he visited the office of Toyota Motor Corporation, President Morita told its executives: "We would like to have the capability to be able to supply components on our own responsibility."

Another member of the Toyota Group, Aishin Seiki Co., also drew up a plan this February to construct a new engine-parts factory in Tomakomai City, Hokkaido.

Although the construction machinery industry was careful about new large-scale investment, its attitude has gradually changed. Komatsu Ltd., will build a new plant for the first time in 11 years, and Hitachi Construction Machinery Co., also plan to build a plant after a lapse of 19 years, both in Hitachi-Nakaminato City, Ibaraki Prefecture. By investing more than 40 billion yen, the two countries will respond to increasing demands for construction machinery in North America and the Middle East.

These companies are willing to "meet increasing demands in the world from a Japan that has superior technology," said Hitachi Construction Machinery President Dazai. Many manufacturers were eager to shift production bases to China until recently, but some of them are now planning to assemble high value-added products in Japan, creating a favorable cycle in which jobs and household incomes increase first, personal consumption is stimulated next, and then corporate performance eventually improves.

Canon Inc. and Toshiba Corporation plan to build factories in Oita Prefecture. Such investment is estimated to create about 780 billion yen worth of economic effects in the area.

In the January - March period of 2007, listed companies expect to see their earnings reset its highest record for the fourth straight term. Many think-tanks estimate that capital investment for fiscal 2006 will increase by 5% to 10%.

In the past, capital investments also increased as earnings were on the rise. But the contents of investments have changed. As many as 40% of companies surveyed said they planned to invest more than one-fourth of all new capital investments in improving the functions of their existing facilities account.

Honda Motors has decided to build a new plant in Saitama Prefecture, the first new factory in 30 years. The aim is to boost productivity by thoroughly making mass-production lines more effective. Honda President said: "Unless we improve the functions of our domestic plants, we will not be able to win" in global competition.

As a result of their streamlining efforts, companies have boosted domestic productivity. According to Mizuho Research Institute,

net output per head - manpower productivity - dropped to an annualized 0.9% in the 1990s but recovered to 2.0% during the period 2002 through 2005. Chief economist Hiroshi Iwamoto said: "The improvement is attributed to the increased efficiency of fund operations owing to the introduction of state-of-the-art production facilities."

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Many firms, though, still remember the experience of having had difficulty in disposing of excessive production capacity. In the electrical machinery industry, which has increased the output of flat-screen TV sets, some voice concern about the recent increasing production capacity in the industry. Nikon managing director Kazuo Ushida said: "It is difficult to judge if each firm's large-scale capital investment would create the state of over supply of flat-screen panels or be disposed of owing to growth in the TV market."

If uncertainty looms over the future of the economy and should concerns about excessive plants and equipment appear again, companies might become careful about new investment.

What to be noted is the future behavior of the yen value's exchange rates. According to the Bank of Japan, the yen's value to major currencies has weakened after a lapse of 20 years. The weak yen has driven up exports, encouraging domestic firms to build new plants. However, if the US economy slows down or if the difference in interest rates between Japan and the US contracts, the yen would rapidly surge again. In such a case, the brakes might be applied to the accelerated moves to construct new plants in Japan.

The major premise for keeping the economy on a sustainable recovery track is the continued growth of capital investment. In order to survive global competition, Japanese business executives should assume an unstinting stance for capital investment in areas with potential.

DONOVAN